KEEGAN, WERLIN & PABIAN, LLP

ATTORNEYS AT LAW
21 CUSTOM HOUSE STREET
BOSTON, MASSACHUSETTS 02110-3525

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

June 11, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 03-47, Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, NSTAR Gas Company, Pension/PBOP Adjustment Mechanism Tariff Filing, Discovery Responses

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter are the responses of Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company and NSTAR Gas Company to the Information Requests set forth on the accompanying list.

Thank you for your attention to this matter.

Sincerely,

Robert N. Werlin

Robert N. Werlin

Enclosures
cc: Service List

Responses to Information Requests

Information Request AG-1-7
Information Request AG-1-18
Information Request AG-1-27
Information Request AG-1-28
Information Request AG-1-31
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Information Request AG-1-34
Information Request AG-1-47
Information Request AG-1-48
Information Request DTE-2-22

June 11, 2003

Information Request AG-1-7

Please provide copies of the Securities and Exchange Commission's Forms 10-K for each of the years 1990 to 2002 for each of the Companies.

Response

The documents are attached as follows:

Attachment AG-1-7(1), BEC Energy 10K and 10K/A, 1998;
Attachment AG-1-7(2), Boston Edison Company 10K, 1990 – 2002;
Attachment AG-1-7(3), Cambridge Electric Light Company 10K, 1990 – 1999;
Attachment AG-1-7(4), Commonwealth Energy System 10K, 1990 – 1998;
Attachment AG-1-7(5), Commonwealth Electric Company 10K, 1990 – 1999;
Attachment AG-1-7(6), NSTAR 10K, 1999 – 2002; and
Attachment AG-1-7(7), NSTAR Gas Company, f/k/a Commonwealth Gas Company 10K, 1990 – 1999.

Please note that after 1999, Form 10-Ks are no longer produced for Commonwealth Electric Company, Cambridge Electric Light Company, and NSTAR Gas. Similarly, after 1998 Form 10-Ks are no longer produced for Commonwealth Energy System. Refer to NSTAR's Form 10-K for periods subsequent to 1998.

In addition, note that the attachments are bulk documents and are therefore being provided only to the Secretary, the Hearing Officer and the Attorney General. A copy of each is also available for inspection at the Company's offices during normal business hours.

Information Request AG-1-18

Please provide copies of the pension trust fund financial statements for each of the Companies for each of the years 1990 through 2002.

Response

The documents are attached as follows:

Attachment AG-1-18(1), Boston Edison Company Retirement Plan, 1990 – 1991 and 1993 – 1999;
Attachment AG-1-18(2), Commonwealth Energy Pension, 1990 – 1999;
Attachment AG-1-18(3), NSTAR Pension, 2000 – 2001;

Please note that the attachments are bulk documents and are therefore being provided only to the Secretary, the Hearing Officer and the Attorney General. A copy of each is also available for inspection at the Company's offices during normal business hours.

In addition, the report for 2002 has not been published at this time. Also, the Company has been unable to locate the pension trust fund financial statement for Boston Edison for 1992. However, 1992 financial statement information is included in the 1993 report. This response will be supplemented if and when the additional materials are located.

Information Request AG-1-27

Referring to Exhibit NSTAR-JJJ, page 15, line 17, please provide copies of the workpapers, calculations, formulas, assumptions, and supporting documentation for the amount "Allocated to unregulated companies."

Response

Please see Attachment AG-1-27, an analysis of NSTAR's year-end additional minimum pension liability adjustment.

NSTAR
Additional Minimum Liability
12/31/2002

Prepaid=	$257,015,443
Plan Assets=	$665,897,000
ABO=	$843,572,000
Unfunded ABO=	($177,675,000)

Acct. #	Description	BECo 60.64%	ComElectric 17.00%	Cambridge 2.51%	NSTAR Gas 18.02%	NE&G	Parent 1.83%	Consolidated 100.00%
146300	Rec. fr. NE&G	171,094,158						
(New Account) 182XXX	Pension AML Reg. Asset	5,600,842						
186020	Intangible asset	980,000						
254010	Pension liability	(177,675,000)						
146150	Rec. fr. ComElectric					73,897,375		
146160	Rec. fr. CEL					10,910,730		
146200	Rec. fr. NSTAR Gas					78,331,218		
146002	Rec. fr. Parent					7,954,835		
234120	Pay. To BECo					(171,094,158)		
(New Account) 182XXX	Pension AML Reg. Asset		73,897,375	10,910,730	78,331,218			
234300	Pay. To NE&G		(73,897,375)	(10,910,730)	(78,331,218)			
216750	Other Comp. Income						4,834,551	
283010	Fed. ADIT						2,603,220	
283020	Mass. ADIT						517,064	
234300	Pay. To NE&G						(7,954,835)	
	Ending Balances							
	Pension AML Reg. Asset							168,740,165
	Prepaid reg. Asset							257,015,443
	Intangilbe asset							980,000
	OCI							4,834,551
	ADIT							3,120,284
								434,690,443
	Check							
	Prepaid							257,015,443
	Unfunded ABO							177,675,000
								434,690,443

Benefit Analysis YTD OCT

06/11/2003

	From benefits loader - Acct 926	From benefits loader - Other O & M Accts	Service bill	Total O & M	Percent of Benefits to O&M	From benefits loader - Acct 186	From benefits loader - Other BS Accts	Capital Spending From OFA	Total BS	Percent of Benefits to Capital	Total / Company	Percent of Total Benefits
Beco	5,646,398.18	41,526.51	20,544,458.60	26,232,383.29	38.1%	498,043.03	670,769.89	14,374,492.91	15,543,305.83	22.6%	41,775,689.12	60.64%
CE	2,263,158.52	3,199.15	6,381,157.66	8,647,515.33	12.6%	4,471.44	1,068.63	3,055,245.73	3,060,785.80	4.4%	11,708,301.13	17.00%
CEL	79,933.12	0.00	1,093,493.33	1,173,426.45	1.7%	9,857.31	72,803.14	474,037.52	556,697.97	0.8%	1,730,124.42	2.51%
Gas	5,307,621.02	56,836.63	4,973,243.93	10,337,701.58	15.0%	23,956.07	225.69	2,048,507.16	2,072,688.92	3.0%	12,410,390.50	18.02%
Unregs	743,685.40	14,750.83	503,311.13	1,261,747.36	1.8%				-	0.0%	1,261,747.36	1.83%
Total	14,040,796.24	116,313.12	33,495,664.65	47,652,774.01	69.2%	536,327.85	744,867.35	19,952,283.32	21,233,478.52	30.8%	68,886,252.53	100.00%

L:\SHARED\LEGAL\RESTRUCT\DTE\DTE 2003\03-47 Pension Case\Discovery\AG-01\final\[AG-01-27 Att.xls]Benefits analysis

Information Request AG-1-28

Referring to Exhibit NSTAR-JJJ, page 15, line 18, please provide copies of the workpapers, calculations, formulas, assumptions, and supporting documentation for the amount of the "Intangible asset."

Response

Please see page 10 of the 2003 Actuary Report provided in Attachment DTE-2-7. An explanation of what Intangible Assets represent is set forth in Exhibit NSTAR-JJJ, from page 15, line 21 through page 16 line 2.

Information Request AG-1-31

Please provide the current amounts of pension costs being recovered from each of the Companies' customers. Please also provide a complete and detailed description of the basis for those amounts, along with all workpapers, calculations, formulas, assumptions, and supporting documentation.

Response

For amounts of pension costs being recovered from the Companies' customers, please see Attachment DTE-1-2(Rev), pages 2 - 5, line 8. Please see Attachment AG-1-31 for associated workpapers for both pension and PBOP.

Please note that the attachment is a bulk document and is therefore being provided only to the Secretary, the Hearing Officer and the Attorney General. A copy is also available for inspection at the Company's offices during normal business hours.

Information Request AG-1-32

Please provide the current amounts of post-retirement benefits other than pensions costs being recovered from each of the Companies' customers. Please also provide a complete and detailed description of the methodology used to determine those amounts, along with all workpapers, calculations, formulas, assumptions, and supporting documentation.

Response

For amounts of post-retirement benefits other than pension costs being recovered from the Companies' customers, please see Attachment DTE-1-2(Rev), pages 2 - 5, line 18. Please see Attachment AG-1-31 for associated workpapers.

Information Request AG-1-34

Referring to the proposed Boston Edison Company Tariff, page 1, Section 1.01, please provide a complete and detailed description of the term "SFAS 87." Please also provide all supporting documentation for that description.

Response

"SFAS 87" refers to Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Statements of Financial Accounting Standards are issued by the Financial Accounting Standards Board ("FASB"). SFAS 87 is oftentimes referred to as FASB 87 or FAS 87. Please see Attachment AG-34(a) for a copy of SFAS 87. SFAS 132 amended reporting requirements for SFAS 87. Please see Attachment AG-34(b) for a copy of SFAS 132.

Browse Location: United States\Financial Accounting Standards Board (FASB)\Original Pronouncements\FASB Statements (FAS)\FAS 76 to 100 (Issued Nov 1983 - Dec 1988)\FAS 87: Employers' Accounting for Pensions
Publish Date: 11 October, 2002

FAS 87: Employers' Accounting for Pensions

FAS 87 STATUS

Issued:	December 1985
Effective Date:	For fiscal years beginning after December 15, 1986
Affects:	Supersedes APB 8 Amends APB 12, paragraph 6 Amends APB 16, paragraph 88 Supersedes APB 16, footnote 13 Amends FAS 5, paragraph 7 Supersedes FAS 36 Supersedes FIN 3
Affected by:	Paragraph 8 amended by FAS 106 Paragraph 37 amended by FAS 96 and FAS 109 and FAS 130 Paragraph 38 amended by FAS 130 Paragraphs 49 and 66 and Illustration 4 amended by FAS 135 Paragraphs 54, 56, 65, and 69 and Illustration 6 superseded by FAS 132 Paragraphs 74 and Illustration 7 amended by FAS 141 Footnote 3 superseded by FAS 106 Footnote 13 superseded by FAS 135
Other Interpretive Pronouncement:	FTB 87-1 (Superseded by FAS 106)
Other Interpretive Release:	FASB Special Report, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions: Questions and Answers* (Resolves EITF Issue No. 87-13)
	Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects:	Partially resolves EITF Issue No. 84-35
Interpreted by:	Paragraphs 24 through 28 interpreted by EITF Issue No. 91-7 Paragraph 64 interpreted by EITF Issue No. 86-27 Paragraph 68 interpreted by EITF Issue No. 90-3 Paragraph 198 interpreted by EITF Topic No. D-36
Related Issues:	EITF Issue No. 88-1 and Topics No. D-27 and D-92

FAS 87 Summary

This Statement supersedes previous standards for employers' accounting for pensions. The most significant changes to past practice affect an employer's accounting for a single-employer defined benefit pension plan, although some provisions also apply to an employer that participates in a multiemployer plan or sponsors a defined contribution plan.

Measuring cost and reporting liabilities resulting from defined benefit pension plans have been sources of accounting controversy for many years. Both the Committee on Accounting Procedure, in 1956, and the Accounting Principles Board (APB), in 1966, concluded that improvements in pension accounting were necessary beyond what was considered practical at those times.

After 1966, the importance of information about pensions grew with increases in the number of plans and amounts of pension assets and obligations. There were significant changes in both the legal environment (for example, the enactment of ERISA) and the economic environment (for example, higher inflation and interest rates). Critics of prior accounting requirements, including users of financial statements, became aware that reported pension cost was not comparable from one company to another and often was not consistent from period to period for the same company. They also became aware that significant pension-related obligations and assets were not recognized in financial statements.

Funding and Accrual Accounting

This Statement reaffirms the usefulness of information based on accrual accounting. Accrual accounting goes beyond cash transactions to provide information about assets, liabilities, and earnings. The Board has concluded, as did the APB in 1966, that net pension cost for a period is not necessarily determined by the amount the employer decides to contribute to the plan for that period. Many factors (including tax considerations and availability of both cash and alternative investment opportunities) that affect funding decisions should not be allowed to dictate accounting results if the accounting is to provide the most useful information. The conclusion that accounting information on an accrual basis is needed does not mean that accounting information and funding decisions are unrelated. In pensions, as in other areas, managers may use accounting information along with other factors in making financial decisions. Some employers may decide to change their pension funding policies based in part on the new accounting information. Financial statements should provide information that is useful to those who make economic decisions, and the decision to fund a pension plan to a greater or lesser extent is an economic decision. The Board, however, does not have as an objective either an increase or a decrease in the funding level of any particular plan or plans. Neither does the Board believe that the information required by this Statement is the only information needed to make a funding decision or that net periodic pension cost, as defined, is necessarily the appropriate amount for any particular employer's periodic contribution.

Fundamentals of Pension Accounting

In applying accrual accounting to pensions, this Statement retains three fundamental aspects of past pension accounting: *delaying recognition* of certain events, reporting *net cost*, and *offsetting* liabilities and assets. Those three features of practice have shaped financial reporting for pensions for many years, although they have been neither explicitly addressed nor widely understood, and they conflict in some respects with accounting principles applied elsewhere.

The *delayed recognition* feature means that changes in the pension obligation (including those resulting from plan amendments) and changes in the value of assets set aside to meet those obligations are not recognized as they occur but are recognized systematically and gradually over subsequent periods. All changes are ultimately recognized except to the extent they may be offset by subsequent changes, but at any point changes that have been identified and quantified await subsequent accounting recognition as net cost components and as liabilities or assets.

The *net cost* feature means that the recognized consequences of events and transactions affecting a pension plan are reported as a single net amount in the employer's financial statements. That approach aggregates at least three items that might be reported separately for any other part of an employer's operations: the compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and the results of investing what are often significant amounts of assets.

The *offsetting* feature means that recognized values of assets contributed to a plan and liabilities for pensions recognized as net pension cost of past periods are shown net in the employer's statement of financial position, even though the liability has not been settled, the assets may be still largely controlled, and substantial risks and rewards associated with both of those amounts are clearly borne by the employer.

Within those three features of practice that are retained by this Statement, the Board has sought to achieve more useful financial reporting through three changes:

a. This Statement requires a standardized method for measuring net periodic pension cost that is intended to improve comparability and understandability by recognizing the compensation cost of an employee's pension over that employee's approximate service period and by relating that cost more directly to the terms of the plan.

b. This Statement requires immediate recognition of a liability (the minimum liability) when the accumulated benefit obligation exceeds the fair value of plan assets, although it continues to delay recognition of the offsetting amount as an increase in net periodic pension cost.

c. This Statement requires expanded disclosures intended to provide more complete and more current information than can be practically incorporated in financial statements at the present time.

Cost Recognition and Measurement

A fundamental objective of this Statement is to recognize the compensation cost of an employee's pension benefits (including prior service cost) over that employee's approximate service period. Many respondents to *Preliminary Views* and the Exposure Draft on employers' accounting for pensions agreed with that objective, which conflicts with some aspects of past practice under APB Opinion No. 8, *Accounting for the Cost of Pension Plans*.

The Board believes that the understandability, comparability, and usefulness of pension information will be improved by narrowing the past range of methods for allocating or attributing the cost of an employee's pension to individual periods of service. The Board was unable to identify differences in circumstances that would make it appropriate for different employers to use fundamentally different accounting methods or for a single employer to use different methods for different plans. The Board believes that the terms of the plan that define the benefits an employee will receive (the plan's benefit formula) provide the most relevant and reliable indication of how pension cost and pension obligations are incurred. In the absence of convincing evidence that the substance of an exchange is different from that indicated by the agreement between the parties, accounting has traditionally looked to the terms of the agreement as a basis for recording the exchange. Unlike some other methods previously used for pension accounting, the method required by this Statement focuses more directly on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, in each individual period.

Statement of Financial Position

The Board believes that this Statement represents an improvement in past practices for the reporting of financial position in two ways. First, recognition of the cost of pensions over employees' service periods will result in earlier (but still gradual) recognition of significant liabilities that were reflected more slowly in the past financial statements of some employers. Second, the requirement to recognize a minimum liability limits the extent to which the delayed recognition of plan amendments and losses in net periodic pension cost can result in omission of certain liabilities from statements of financial position.

Recognition of a measure of at least the minimum pension obligation as a liability is not a new idea. Accounting Research Bulletin No. 47, *Accounting for Costs of Pension Plans*, published in 1956, stated that "as a minimum, the accounts and financial statements should reflect accruals which equal the present worth, actuarially calculated, of pension commitments to employees to the extent that pension rights have vested in the employees, reduced, in the case of the balance sheet, by any accumulated trusteed funds or annuity contracts purchased." Opinion 8 required that "if the company has a legal obligation for pension cost in excess of amounts paid or accrued, the excess should be shown in the balance sheet as both a liability and a deferred charge."

The Board believes that an employer with an unfunded pension obligation has a liability and an employer with an overfunded pension obligation has an asset. The most relevant and reliable information available about that liability or asset is based on the fair value of plan assets and a measure of the present value of the obligation using current, explicit assumptions. The Board concluded, however, that recognition in financial statements of those amounts in their entirety would be too great a change from past practice. Some Board members were also influenced by concerns about the reliability of measures of the obligation. The delayed recognition included in this Statement results in excluding the most current and most relevant information from the statement of financial position. That information, however, is included in the required disclosures.

Information Needed

The Board believes that users of financial reports need information beyond that previously disclosed to be able to assess the status of an employer's pension arrangements and their effects on the employer's financial position and results of operations. Most respondents agreed, and this Statement requires certain disclosures not previously required.

This Statement requires disclosure of the components of net pension cost and of the projected benefit obligation. One of the factors that has made pension information difficult to understand is that past practice and terminology combined elements that are different in substance and effect into net amounts. Although the Board agreed to retain from past pension accounting practice the basic features of reporting net cost and offsetting liabilities and assets, the Board believes that disclosure of the components will significantly assist users in understanding the economic events that have occurred. Those disclosures also make it easier to understand why reported amounts change from period to period, especially when a large cost or asset is offset by a large revenue or liability to produce a relatively small net reported amount.

* * * * *

After considering the range of comments on *Preliminary Views* and the Exposure Draft, the Board concluded that this Statement represents a worthwhile improvement in financial reporting. Opinion 8 noted in 1966 that "accounting for pension cost is in a transitional stage." The Board believes that is still true in 1985. FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, paragraph 2, indicates that "the Board intends future change [in practice] to occur in the gradual, evolutionary way that has characterized past change."

INTRODUCTION

1. This Statement establishes standards of financial reporting and accounting for an employer that offers **pension benefits** [1] to its employees. The FASB added two pension projects to its agenda in 1974: (a) accounting and reporting by employee benefit plans and (b) employers' accounting for pensions. The first of those projects led to the issuance in 1980 of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*; this Statement is a result of the second project.

2. Measurement of cost and reporting of liabilities resulting from **defined benefit pension plans** have been a source of accounting controversy for many years. In 1956, the Committee on Accounting Procedure in Accounting Research Bulletin (ARB) No. 47, *Accounting for Costs of Pension Plans*, expressed a preference for accounting in which cost would be "systematically accrued during the expected period of active **service** of the covered employees . . ." (paragraph 5). The committee went on to state:

> However, the committee believes that opinion as to the accounting for pension costs has not yet crystallized sufficiently to make it possible at this time to assure agreement on any one method, and that differences in accounting for pension costs are likely to continue for a time. Accordingly, for the present, the committee believes that, as a minimum, the accounts and financial statements should reflect accruals which equal the present worth, actuarially calculated, of pension commitments to employees to the extent that pension rights have vested in the employees, reduced, in the case of the balance sheet, by any accumulated trusteed **funds** or **annuity contracts** purchased. [paragraph 7]

3. The Accounting Principles Board (APB) issued Opinion No. 8, *Accounting for the Cost of Pension Plans*, in 1966. Opinion 8 described several views of pension cost supported by members of the APB. It concluded that "in the light of such differences in views and of the fact that accounting for pension cost is in a transitional stage, . . . the range of practices would be significantly narrowed if pension cost were accounted for at the present time within limits . . . " (paragraph 17).

4. After 1966, the importance of information about pensions grew with increases in the number of plans and the amounts of pension assets and obligations. There were significant changes in both the legal environment (for example, the enactment of **ERISA**) and the economic environment (for example, higher inflation and **interest rates**). Critics of past accounting, including users of financial statements, became aware that reported pension cost was not comparable from one company to another and often was not consistent from period to period for the same company. They also became aware that significant pension-related obligations and assets were not recognized in financial statements.

5. This Statement continues the evolutionary search for more meaningful and more useful pension accounting. The FASB believes that the conclusions it has reached are a worthwhile and significant step in that direction, but it also believes that those conclusions are not likely to be the final step in that evolution. Pension accounting in 1985 is still in a transitional stage. It has not yet fully crystallized, but the Board believes this Statement represents significant progress, especially in the measurement of **net periodic pension cost** and in the disclosure of useful information.

6. The Board's objectives for this Statement, in broad terms, are as follows:

a. To provide a measure of net periodic pension cost [2] that is more representationally faithful than those used in past practice because it reflects the terms of the underlying plan and because it better approximates the recognition of the cost of an employee's pension over that employee's service period

b. To provide a measure of net periodic pension cost that is more understandable and comparable and is, therefore, more useful than those in past practice

c. To provide disclosures that will allow users to understand better the extent and effect of an employer's undertaking to provide employee pensions and related financial arrangements

d. To improve reporting of financial position.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

7. This Statement establishes standards of financial accounting and reporting for an employer that offers pension benefits to its employees. Ordinarily, such benefits are periodic pension payments to retired employees or their survivors, but they may also include benefits payable as a single lump sum and, except as noted in the following paragraph, other types of benefits such as death benefits provided through a pension plan. An employer's arrangement to provide pension benefits may take a variety of forms and may be financed in different ways. This Statement applies to any arrangement that is similar in substance to a pension plan regardless of the form or means of financing. This Statement applies to a written plan and to a plan whose existence may be implied from a well-defined, although perhaps unwritten, practice of paying postretirement benefits.

~~8. This Statement does not apply to a plan that provides only life insurance benefits or health insurance benefits, or both, to retirees; employers are also not required to apply this Statement to postemployment health care benefits provided through a pension plan.[3] If the provisions of this Statement are not applied to postemployment health care benefits provided through a pension plan, obligations and assets related to such benefits shall not be considered to be pension obligations or **plan assets** for purposes of this Statement.~~ This Statement does not change or supersede any of the requirements set forth in Statement 35 for the financial statements of a pension plan.

9. This Statement supersedes Opinion 8, as amended; FASB Statement No. 36, *Disclosure of Pension Information*; and FASB Interpretation No. 3, *Accounting for the Cost of Pension Plans Subject to the Employee Retirement Income Security Act of 1974*. Paragraphs 70 and 75 of this Statement amend FASB Statement No. 5, *Accounting for Contingencies* and APB Opinion No. 16, *Business Combinations*.

Use of Reasonable Approximations

10. This Statement is intended to specify accounting objectives and results rather than specific computational means of obtaining those results. If estimates, averages, or computational shortcuts can reduce the cost of applying this Statement, their use is appropriate, provided the results are reasonably expected not to be materially different from the results of a detailed application.

Single-Employer Defined Benefit Pension Plans

11. The most significant parts of this Statement involve an employer's accounting for a single-employer defined benefit pension plan. For purposes of this Statement, a defined benefit pension plan is one that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation.

12. A pension benefit is part of the compensation paid to an employee for services. In a defined benefit pension plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates service. Generally, the amount of benefit to be paid depends on a number of future events that are incorporated in the **plan's benefit formula**, often including how long the employee and any survivors live, how many years of service the employee renders, and the employee's compensation in the years immediately before retirement or termination. In most cases, services are rendered over a number of years before an employee retires and begins collecting the pension. Even though the services rendered by an employee are complete and the employee has retired, the total amount of benefit that the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can only be estimated using the **benefit formula** and estimates of the relevant future events, many of which the employer cannot control.

13. Any method of pension accounting that recognizes cost before the payment of benefits to retirees must deal with two problems stemming from the nature of the defined benefit pension contract. First, estimates or **assumptions** must be made concerning the future events that will determine the amount and timing of the benefit payments. Second, some approach to attributing the cost of pension benefits to individual years of service must be selected.

14. This Statement requires use of explicit assumptions, each of which individually represents the best estimate of a particular future event. This Statement also requires use of the terms of the pension plan itself, specifically the plan's benefit formula, as a basis for attributing benefits earned and their cost to periods of employee service.

Basic Elements of Pension Accounting

15. The assumptions and the **attribution** of cost to periods of employee service are fundamental to the measurements of net periodic pension cost and pension obligations required by this Statement. The basic elements of pension accounting are described in paragraphs 16-19; they are the foundation of the accounting and reporting requirements set forth in this Statement.

16. Net periodic pension cost has often been viewed as a single homogeneous amount, but in fact it is made up of several *components* that reflect different aspects of the employer's financial arrangements as well as the cost of benefits earned by employees. The cost of a benefit can be determined without regard to how the employer decides to finance the plan. The **service**

cost component of net periodic pension cost is the **actuarial present value** of benefits attributed by the plan's benefit formula to services rendered by employees during the period. The service cost component is conceptually the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic pension cost are **interest cost** [4] (interest on the **projected benefit obligation**, which is a discounted amount), **actual return on plan assets**, **amortization** of **unrecognized prior service cost**, and **gain or loss**. Both the return on plan assets and interest cost components are in substance financial items rather than employee compensation costs.

17. The projected benefit obligation as of a date is the actuarial present value of all benefits attributed by the plan's benefit formula to employee service rendered prior to that date. The projected benefit obligation is measured using an assumption as to future compensation levels if the **pension benefit formula** is based on those future compensation levels. Plans for which the pension benefit formula is based on future compensation are sometimes called pay-related, **final-pay**, final-average-pay, or **career-average-pay plans**. Plans for which the pension benefit formula is not based on future compensation levels are called non-pay-related or **flat-benefit plans**. The projected benefit obligation is a measure of benefits attributed to service to date assuming that the plan continues in effect and that estimated future events (including compensation increases, **turnover**, and **mortality**) occur.

18. The **accumulated benefit obligation** as of a date is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and based on current and past compensation levels. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same. The accumulated benefit obligation and the **vested benefit obligation** provide information about the obligation the employer would have if the plan were discontinued.

19. Plan assets are assets-usually stocks, bonds, and other investments-that have been segregated and restricted (usually in a trust) to provide for pension benefits. The amount of plan assets includes amounts contributed by the employer (and by employees for a **contributory plan**) and amounts earned from investing the contributions, less benefits paid. Plan assets ordinarily cannot be withdrawn by the employer except under certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. Assets not segregated in a trust or otherwise effectively restricted so that they cannot be used by the employer for other purposes are not plan assets for purposes of this Statement even though it may be intended that such assets be used to provide pensions. Amounts accrued by the employer but not yet paid to the plan are not plan assets for purposes of this Statement.

Securities of the employer held by the plan are includable in plan assets provided they are transferable.

Recognition of Net Periodic Pension Cost

20. The following components shall be included in the net pension cost recognized for a period by an employer **sponsoring** a defined benefit pension plan:

a. Service cost

b. Interest cost

c. Actual return on plan assets, if any

d. Amortization of unrecognized prior service cost, if any

e. Gain or loss (including the effects of changes in assumptions) to the extent recognized (paragraph 34)

f. Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of this Statement (paragraph 77).

Service Cost

21. The service cost component recognized in a period shall be determined as the actuarial present value of benefits attributed by the pension benefit formula to employee service during that period. The measurement of the service cost component requires use of an attribution method and assumptions. That measurement is discussed in paragraphs 39-48 of this Statement.

Interest Cost

22. The interest cost component recognized in a period shall be determined as the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit obligation as a present value requires accrual of an interest cost at rates equal to the assumed discount rates.

Actual Return on Plan Assets

23. For a funded plan, the actual return on plan assets shall be determined based on the **fair value** of plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.

Prior Service Cost

24. **Plan amendments** (including initiation of a plan) often include provisions that grant increased benefits based on services rendered in prior periods. Because plan amendments are granted with the expectation that the employer will realize economic benefits in future periods, this Statement does not require the cost of providing such **retroactive benefits** (that is,

prior service cost) to be included in net periodic pension cost entirely in the year of the amendment but provides for recognition during the future service periods of those employees active at the date of the amendment who are expected to receive benefits under the plan.

25. The cost of retroactive benefits (including benefits that are granted to retirees) is the increase in the projected benefit obligation at the date of the amendment. Except as specified in paragraphs 26 and 27, that prior service cost shall be amortized by assigning an equal amount to each future period of service of each employee active at the date of the amendment who is

expected to receive benefits under the plan. If all or almost all of a plan's **participants** are inactive, the cost of retroactive plan amendments affecting benefits of inactive participants shall be amortized based on the remaining life expectancy of those participants instead of based on the remaining service period.

26. To reduce the complexity and detail of the computations required, consistent use of an alternative amortization approach that more rapidly reduces the unrecognized cost of retroactive amendments is acceptable. For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable. The alternative method used shall be disclosed.

27. In some situations a history of regular plan amendments and other evidence may indicate that the period during which the employer expects to realize economic benefits from an amendment granting retroactive benefits is shorter than the entire remaining service period of the active employees. Identification of such situations requires an assessment of the individual circumstances and the substance of the particular plan situation. In those circumstances, the amortization of prior service cost shall be accelerated to reflect the more rapid expiration of the employer's economic benefits and to recognize the cost in the periods benefited.

28. A plan amendment can reduce, rather than increase, the projected benefit obligation. Such a reduction shall be used to reduce any existing unrecognized prior service cost, and the excess, if any, shall be amortized on the same basis as the cost of benefit increases.

Gains and Losses

29. **Gains and losses** are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example by sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise.[5]

30. The **expected return on plan assets** shall be determined based on the

expected long-term rate of return on plan assets and the **market-related value of plan assets**. The market-related value of plan assets shall be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. Different ways of calculating market-related value may be used for different classes of assets (for example, an employer might use fair value for bonds and a five-year-moving-average value for equities), but the manner of determining market-related value shall be applied consistently from year to year for each asset class.

31. Asset gains and losses are differences between the actual return on assets during a period and the expected return on assets for that period. Asset gains and losses include both (a) changes reflected in the market-related value of assets and (b) changes not yet reflected in the market-related value (that is, the difference between the fair value of assets and the market-related value). Asset gains and losses not yet reflected in market-related value are not required to be amortized under paragraphs 32 and 33.

32. As a minimum, amortization of an **unrecognized net gain or loss** (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization [6] shall be that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service.

33. Any systematic method of amortization of unrecognized gains or losses may be used in lieu of the minimum specified in the previous paragraph provided that (a) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed.

34. The gain or loss component of net periodic pension cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) amortization of the unrecognized net gain or loss from previous periods.

Recognition of Liabilities and Assets

35. A liability (**unfunded accrued pension cost**) is recognized if net periodic pension cost recognized pursuant to this Statement exceeds amounts the employer has contributed to the plan. An asset (**prepaid pension cost**) is recognized if net periodic pension cost is less than amounts the employer has contributed to the plan.

36. If the accumulated benefit obligation exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the **unfunded accumulated benefit obligation**. Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (a) an asset has been recognized as prepaid pension cost, (b) the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued or prepaid pension cost has been recognized.

37. If an additional minimum liability is recognized pursuant to paragraph 36, an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost.[7] If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess (which would represent a net loss not yet recognized as net periodic pension cost) shall be reported ~~as a separate component (that is, a reduction) of equity,~~ net of any tax benefits that result from considering such losses as

~~timing differences~~ for purposes of applying the provisions of ~~APB Opinion No. 11,~~ ~~*Accounting for Income Taxes*~~.

38. When a new determination of the amount of additional liability is made to prepare a statement of financial position, the related intangible asset and separate component of equity shall be eliminated or adjusted as necessary.

Measurement of Cost and Obligations

39. The service component of net periodic pension cost, the projected benefit obligation, and the accumulated benefit obligation are based on an attribution of pension benefits to periods of employee service and on the use of actuarial assumptions to calculate the actuarial present value

of those benefits. Actuarial assumptions reflect the time value of money (**discount rate**) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Attribution

40. For purposes of this Statement, pension benefits ordinarily shall be attributed to periods of employee service based on the plan's benefit formula to the extent that the formula states or implies an attribution. For example, if a plan's formula provides for a pension benefit of $10 per month for life for each year of service, the benefit attributed to each year of an employee's service is $10 times the number of months of life expectancy after retirement, and the cost attributable to each year is the actuarial present value of that benefit. For plan benefit formulas that define

benefits similarly for all years of service, that attribution is a **"benefit/years-of-service" approach** because it attributes the same amount of the pension benefit to each year of service.[8] For final-pay and career-average-pay plans, that attribution is also the same as the "projected unit credit" or "unit credit with service prorate" actuarial cost method. For a flat-benefit plan, it is the same as the "unit credit" actuarial cost method.

41. In some situations a history of regular increases in non-pay-related benefits or benefits under a career-average-pay plan and other evidence may indicate that an employer has a present commitment to make future amendments and that the substance of the plan is to provide benefits attributable to prior service that are greater than the benefits defined by the written terms of the plan. In those situations, the substantive commitment shall be the basis for the accounting, and the existence and nature of the commitment to make future amendments shall be disclosed.

42. Some plans may have benefit formulas that attribute all or a disproportionate share of the total benefits provided to later years of service, thereby achieving in substance a delayed vesting of benefits. For example, a plan that provides no benefits for the first 19 years of service and a vested benefit of $10,000 for the 20th year is substantively the same as a plan that provides $500 per year for each of 20 years and requires 20 years of service before benefits vest. For such plans the total projected benefit shall be considered to accumulate in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested. If a plan's benefit formula does not specify how a particular benefit relates to services rendered, the benefit shall be considered to accumulate as follows:

a. For benefits of a type includable in **vested benefits**,[9] in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested

b. For benefits of a type not includable in vested benefits,[10] in proportion to the ratio of completed years of service to total projected years of service.

Assumptions

43. Each significant assumption used shall reflect the best estimate solely with respect to that individual assumption. All assumptions shall presume that the plan will continue in effect in the absence of evidence that it will not continue.

44. Assumed discount rates shall reflect the rates at which the pension benefits could be effectively settled. It is appropriate in estimating those rates to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation (including information about available annuity rates currently published by the Pension Benefit Guaranty Corporation). In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. Assumed discount rates are used in measurements of the projected, accumulated, and vested benefit obligations and the service and interest cost components of net periodic pension cost.

45. The expected long-term rate of return on plan assets shall reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In estimating that rate, appropriate consideration should be given to the returns being earned by the plan assets in the fund and the rates of return expected to be available for reinvestment. The expected long-term rate of return on plan assets is used (with the market-related value of assets) to compute the expected return on assets.

46. The service cost component of net periodic pension cost and the projected benefit obligation shall reflect future compensation levels to the extent that the pension benefit formula defines pension benefits wholly or partially as a function of future compensation levels (that is, for a final-pay plan or a career-average-pay plan). Future increases for which a present commitment exists as described in paragraph 41 shall be similarly considered. Assumed compensation levels shall reflect an estimate of the actual future compensation levels of the individual employees involved, including future changes attributed to general price levels, productivity, seniority, promotion, and other factors. All assumptions shall be consistent to the extent that each reflects expectations of the same future economic conditions, such as future rates of inflation. Measuring service cost and the projected benefit obligation based on estimated future compensation levels entails considering indirect effects, such as changes under existing law in social security benefits or benefit limitations [11] that would affect benefits provided by the plan.

47. The accumulated benefit obligation shall be measured based on employees' *history* of service and *compensation* without an estimate of future compensation levels. Excluding estimated future compensation levels also means excluding indirect effects of future changes such as increases in the social security wage base. In measuring the accumulated benefit obligation, projected years of service shall be a factor only in determining employees' expected eligibility for particular benefits, such as:

a. Increased benefits that are granted provided a specified number of years of service are rendered (for example, a pension benefit that is increased from $9 per month to $10 per month for each year of service if 20 or more years of service are rendered)

b. Early retirement benefits

c. Death benefits

d. Disability benefits.

48. Automatic benefit increases specified by the plan (for example, automatic cost-of-living increases) that are expected to occur shall be included in measurements of the projected, accumulated, and vested benefit obligations, and the service cost component required by this Statement. Also, retroactive plan amendments shall be included in the computation of the projected and accumulated benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods. For example, if a plan amendment grants a higher benefit level for employees retiring after a future date, the higher benefit level shall be included in current-period measurements for employees expected to retire after that date.

Measurement of Plan Assets

49. For purposes of measuring the minimum liability required by the provisions of paragraph 36 and for purposes of the disclosures required by ~~paragraph 54~~, plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the **measurement date**. The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by the market price if an active market exists for the investment. If no active market exists for an investment but such a market exists for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.[12]

50. For purposes of determining the expected return on plan assets and accounting for asset gains and losses pursuant to paragraphs 29-34, a market-related asset value, defined in paragraph 30, is used.

51. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) shall be measured at cost less accumulated depreciation or amortization for all purposes.

Measurement Dates

52. The measurements of plan assets and obligations required by this Statement shall be as of the date of the financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date. Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service). The additional minimum liability reported in interim financial statements shall be the same additional minimum liability (paragraph 36) recognized in the previous year-end statement of financial position, adjusted for subsequent accruals and contributions, unless measures of both the obligation and plan assets are available as of a more current date or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.

53. Measurements of net periodic pension cost for both interim and annual financial statements shall be based on the assumptions used for the previous year-end measurements unless more recent measurements of both plan assets and obligations are available or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.

Disclosures

~~54. An employer sponsoring a defined benefit pension plan shall disclose the following:~~

~~a. A description of the plan including employee groups covered, type of benefit formula,~~

~~**funding policy**, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented~~

~~b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components~~ ~~[13]~~

~~c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:~~

~~(1) The fair value of plan assets~~

~~(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation~~

~~(3) The amount of unrecognized prior service cost~~

~~(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)~~

~~(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of this Statement~~

~~(6) The amount of any additional liability recognized pursuant to paragraph 36~~

~~(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to paragraphs 35 and 36 (which is the net result of combining the preceding six items)~~

~~d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets~~

~~e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization method used pursuant to paragraphs 26 and 33, and the existence and nature of the commitment discussed in paragraph 41.~~

Employers with Two or More Plans

55. An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this Statement to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized pursuant to paragraph 35 or 36 for one plan shall not be reduced or eliminated because another plan has

assets in excess of its accumulated benefit obligation or because the employer has prepaid pension cost related to another plan.

~~56. Except as noted below, disclosures required by this Statement may be aggregated for all of an employer's single-employer defined benefit plans, or plans may be disaggregated in groups so as to provide the most useful information. For purposes of the disclosures required by paragraph 54(c), plans with assets in excess of the accumulated benefit obligation shall not be aggregated with plans that have accumulated benefit obligations that exceed plan assets. Disclosures for plans outside the U.S. shall not be combined with those for U.S. plans unless those plans use similar economic assumptions.~~

Annuity Contracts

57. An annuity contract is a contract in which an insurance company [14] unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Some annuity contracts (participating annuity contracts) provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser. If the substance of a participating contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered and the assets transferred to the insurance company, that contract is not an annuity contract for purposes of this Statement.

58. To the extent that benefits currently earned are covered by annuity contracts, the cost of those benefits shall be the cost of purchasing the contracts, except as provided in paragraph 61. That is, if all the benefits attributed by the plan's benefit formula to service in the current period are covered by **nonparticipating annuity contracts**, the cost of the contracts determines the service cost component of net pension cost for that period.

59. Benefits provided by the pension benefit formula beyond benefits provided by annuity contracts (for example, benefits related to future compensation levels) shall be accounted for according to the provisions of this Statement applicable to plans not involving insurance contracts.

60. Benefits covered by annuity contracts shall be excluded from the projected benefit obligation and the accumulated benefit obligation. Except as provided in paragraph 61, annuity contracts shall be excluded from plan assets.

61. Some annuity contracts provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. The purchase price of a **participating annuity contract** ordinarily is higher than the price of an equivalent contract without **participation rights**. The difference is the cost of the participation right. The cost of the participation right shall be recognized at the date of purchase as an asset. In subsequent periods, the participation right shall be measured at its fair value if the contract is such that fair value is reasonably estimable. Otherwise, the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

Other Contracts with Insurance Companies

62. Insurance contracts that are in substance equivalent to the purchase of annuities shall be accounted for as such. Other contracts with insurance companies shall be accounted for as investments and measured at fair value. For some contracts, the best available evidence of fair value may be contract value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value.

Defined Contribution Plans

63. For purposes of this Statement, a **defined contribution pension plan** is a plan that provides pension benefits in return for services rendered, provides an individual account for each participant, and has terms that specify how contributions to the individual's account are to be determined rather than the amount of pension benefits the individual is to receive. Under a defined contribution plan, the pension benefits a participant will receive depend only on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to the participant's account.

64. To the extent that a plan's defined contributions to an individual's account are to be made for periods in which that individual renders services, the net pension cost for a period shall be the contribution called for in that period. If a plan calls for contributions for periods after an individual retires or terminates, the estimated cost shall be accrued during the employee's service period.

~~65. An employer that sponsors one or more defined contribution plans shall disclose the following separately from its defined benefit plan disclosures:~~

a. ~~A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effects of significant matters affecting comparability of information for all periods presented~~

b. ~~The amount of cost recognized during the period.~~

66. A pension plan having characteristics of both a defined benefit plan and a defined contribution plan requires careful analysis. If the *substance* of the plan is to provide a defined benefit, as may be the case with some "target benefit" plans, the accounting ~~and disclosure requirements shall be determined in accordance with the provisions of this Statement applicable to a defined benefit plan~~.

Multiemployer Plans

67. For purposes of this Statement, a **multiemployer plan** is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. A multiemployer plan usually is administered by a board of trustees composed of management and labor representatives and may also be referred to as a "joint trust" or "union" plan. Generally, many employers participate in a multiemployer plan, and an employer may participate in more than one plan. The employers participating in multiemployer plans usually have a common industry bond, but for some plans the employers are in different industries, and the labor union may be their only common bond. Some

multiemployer plans do not involve a union. For example, local chapters of a not-for-profit organization may participate in a plan established by the related national organization.

68. An employer participating in a multiemployer plan shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contributions due and unpaid.

~~69. An employer that participates in one or more multiemployer plans shall disclose the following separately from disclosures for a~~ ~~**single-employer plan**:~~

a. ~~A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented~~

b. ~~The amount of cost recognized during the period.~~

70. In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of FASB Statement No. 5, *Accounting for Contingencies*, shall apply. Paragraph 7 of Statement 5 is amended to delete the references to accounting for pension cost and Opinion 8.

Multiple-Employer Plans

71. Some pension plans to which two or more unrelated employers contribute are not multiemployer plans. Rather, they are in substance aggregations of single-employer plans combined to allow participating employers to pool their assets for investment purposes and to reduce the costs of plan administration. Those plans ordinarily do not involve collective-bargaining agreements. They may also have features that allow participating employers to have different benefit formulas, with the employer's contributions to the plan based on the benefit formula selected by the employer. Such plans shall be considered single-employer plans rather than multiemployer plans for purposes of this Statement, and each employer's accounting shall be based on its respective interest in the plan.

Non-U.S. Pension Plans

72. Except for its effective date (paragraph 76), this Statement includes no special provisions applicable to pension arrangements outside the United States. To the extent that those arrangements are in substance similar to pension plans in the United States, they are subject to the provisions of this Statement for purposes of preparing financial statements in accordance with accounting principles generally accepted in the United States. The substance of an arrangement is determined by the nature of the obligation and by the terms or conditions that define the amount of benefits to be paid, not by whether (or how) a plan is funded, whether benefits are payable at intervals or as a single amount, or whether the benefits are required by law or custom or are provided under a plan the employer has elected to sponsor.

73. It is customary or required in some countries to provide benefits in the event of a voluntary or involuntary severance of employment (also called termination indemnities). If such an

arrangement is in substance a pension plan (for example, if the benefits are paid for virtually all terminations), it is subject to the provisions of this Statement.

Business Combinations

74. When an employer is acquired in a business combination ~~that is accounted for by the purchase method under Opinion 16~~ and that employer sponsors a single-employer defined benefit pension plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation, thereby eliminating any previously existing unrecognized net gain or loss, unrecognized prior service cost, or unrecognized net obligation or net asset existing at the date of initial application of this Statement. Subsequently, to the extent that those amounts are considered in determining the amounts of contributions, differences between the purchaser's net pension cost and amounts contributed will reduce the liability or asset recognized at the date of the combination. If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the projected benefit obligation.

Amendment to Opinion 16

75. The reference to accruals for pension cost in paragraph 88(h) of Opinion 16 and footnote 13 to that Opinion are deleted. The following footnote is added to the end of the last sentence of paragraph 88 of Opinion 16:

Paragraph 74 of FASB Statement No. 87, *Employers' Accounting for Pensions*, specifies how the general guidelines of this paragraph shall be applied to assets and liabilities related to pension plans.

Transition and Effective Dates

76. Except as noted in the following sentences of this paragraph, this Statement shall be effective for fiscal years beginning after December 15, 1986. For plans outside the U.S. and for defined benefit plans of employers that (a) are **nonpublic enterprises** and (b) sponsor no defined benefit plan with more than 100 participants, this Statement shall be effective for fiscal years beginning after December 15, 1988. For all plans, the provisions of paragraphs 36-38 shall be effective for fiscal years beginning after December 15, 1988. In all cases, earlier application is encouraged. Restatement of previously issued annual financial statements is not permitted. If a decision to initially apply this Statement is made in other than the first interim period of an employer's fiscal year, previous interim periods of that year shall be restated.

77. For a defined benefit plan, an employer shall determine as of the measurement date (paragraph 52) for the beginning of the fiscal year in which this Statement is first applied, the amounts of (a) the projected benefit obligation and (b) the fair value of plan assets plus previously recognized unfunded accrued pension cost or less previously recognized prepaid pension cost. The difference between those two amounts, whether it represents an unrecognized net obligation (and loss or cost) or an unrecognized net asset (and gain), shall be amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan, except that, (a) if the average remaining service period is less than 15 years, the employer may elect to use a 15-year period, and (b) if all or almost all of a plan's participants are inactive, the employer shall use the inactive participants' average remaining life expectancy period. That same amortization shall also be used to recognize any unrecognized net obligation related to a defined contribution plan.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Messrs. Brown, Sprouse, and Wyatt dissented.

Mr. Brown does not support either the pension cost determination or the minimum liability recognition provisions of this Statement. He supports the Board's conclusion that pension costs constitute employee compensation and that pension costs should be recognized over employee service lives. He also agrees that the disclosures called for will be helpful in fostering user understanding of the nature and status of employer pension obligations and of employer progress in providing for these obligations. In his view, however, the evidence available to the Board is insufficient to sustain the argument that a benefit/years-of-service method should be the sole required expense attribution method or that recognition of liabilities and assets beyond unfunded accrued or prepaid pension costs should be required.

Mr. Brown believes that considerations of comparability and understandability argue for a narrowing of accounting methods now used to allocate pension costs to accounting periods but observes that neither the benefit family nor the cost family of attribution methods is inherently and demonstrably superior. He believes, however, that the cost/compensation family of attribution methods has considerable appeal as a solution to the difficult problem of allocating the estimated lifetime cost of an employee's defined benefit pension to years of service. Cost/compensation methods allocate net pension cost to periods based on direct compensation-in his view, a reasonable and understandable allocation method-producing a net pension cost that is a constant percentage of compensation over the years of an employee's career. Mr. Brown also notes that cost/compensation methods are more commonly used for both pension cost determination and for funding in the United States than are benefit methods.

Despite the appeal of cost/compensation methods, Mr. Brown would not specify a single actuarial calculation method to be used for periodic attribution of pension costs. Rather, he would establish an objective that net pension cost be charged over the service lives of the existing work force such that the net pension cost would be a level percentage of current and expected compensation of this work force. (He notes that the aggregate method-a cost/compensation approach-is one practical way to meet that objective.)

He believes that stating the accounting objective rather than specifying a single computational method would be cost beneficial. Comparability and understandability would be improved if methods used aimed at a common objective. Attaining comparability of end result does not require standardization of the calculation method as evidenced by the fact that different actuarial calculation methods can produce very similar cost results and cost patterns for the same plan, depending on plan-specific circumstances. Mr. Brown notes that both the actuarial method and the assumptions used are critical in determining periodic pension costs. Differences in assumptions arise both because of different plan circumstances and because judgments are required in developing assumptions. Thus, standardization in method represents only one step, of undeterminable size, in achieving comparability in end result. Available evidence does not support a conclusion that the comparability achieved by method change alone is worth the costs inevitably involved in making the change.

Permitting flexibility in the specific calculations to be used in achieving the accounting objective would avoid the need for specifying detailed methods for amortizing prior service cost and unrecognized actuarial gains and losses, as is done in this Statement. Those detailed methods are necessarily arbitrary and produce a complex accounting standard. The detailed methodology and the insistence on using settlement rates to measure the service and interest cost components of net periodic pension cost are both, in his view, examples of the pursuit of a level of precision or exactness that is realistically unattainable in this case. Mr. Brown would leave implementation details to those who are aware of and can consider the circumstances of each plan situation.

Mr. Brown believes that an employer has an obligation under a defined benefit plan and that information about that obligation and the resources accumulated to meet it should be included in financial reports. In his view, however, the nature of point-in-time value measures of plan assets and of plan obligations (whether measured in terms of vested benefits, accumulated benefits, or projected benefit obligations) is such that they do not fall meaningfully and readily within the present structure of financial statements. Delayed recognition of price changes and of actuarial gains and losses is embodied in the methodology of this Statement for pension cost determination. To require balance sheet recognition of selected point-in-time market values and actuarial liability estimates-and this only when liabilities exceed assets-is inconsistent both internally and with expense recognition methodology. It would also, in Mr. Brown's view, be confusing to users. He does not believe that the proposed intangible assets and separate components of equity that would be recorded in tandem with additional liability recognition would add meaningful or understandable information. For these reasons, he believes that plan asset and pension obligation information is better presented in disclosures to financial statements.

Mr. Sprouse believes that, although this Statement provides some improvements in employers' accounting for pensions, those improvements are more than offset by certain important deficiencies. As explained below, he would support the requirements for determining net periodic pension cost and for disclosure, if those deficiencies were eliminated.

He starts from the basic position that only unfunded accumulated benefits qualify for accounting recognition as an employer's liability and that plan assets in excess of accumulated benefits qualify for accounting recognition as an employer's asset.

In Mr. Sprouse's view, an employer cannot have a present obligation for pension benefits related to salary increases that are contingent upon future events-future inflation, future promotions, future improved productivity. He believes that the decision to grant increases in wages and salaries, whatever the reason, is an event that has directly related consequences, including increases in employers' social security taxes and pension costs, as well as the wages and salaries themselves. Accounting should recognize all of those directly related consequences at the time the event occurs-when wages and salaries are increased because inflation has reduced the purchasing power of the dollars being paid, when wages and salaries are increased because the more valuable services recognized by promotion are being received, when wages and salaries are increased because the benefits of improved productivity are being realized. Anticipating the effects of those future events on pension cost in accounting for the current period before dollars have lost their purchasing power and before the more valuable services related to promotion and productivity have been received is no more appropriate than anticipating the future higher wages and salaries themselves in accounting for the current period.

Mr. Sprouse believes that past practices in accounting for employers' pension cost that rely on forecasts of nominal salary levels were largely the product of certain actuarial methods that were designed for funding purposes to conform to the provisions of the Internal Revenue Code; those methods are not appropriate for financial accounting purposes. Nevertheless, he recognizes that those practices are firmly embedded in financial accounting and drastic changes in them could be disruptive. Accordingly, he would support the requirements for determining net periodic pension cost and for disclosure as significant improvements in practice. Considering the practical limits within which practice can be changed without undue disruption, he could also support the alternative approach described in paragraph 155.

Mr. Sprouse objects, however, to the unique recognition practices this Statement establishes for an "intangible asset." In certain situations, this Statement calls for an employer to recognize an intangible asset to offset the result of a loss on plan assets or to eliminate an intangible asset to offset the result of a gain on plan assets. Similar recognition or elimination of an intangible asset is required to offset the effects of changes in actuarial assumptions related to the accumulated benefit obligation. Those features are unacceptable to him. In his view, those recognition practices can neither be reconciled with the Board's conceptual framework nor readily understood by financial statement users. He believes they seriously diminish the credibility of employers' accounting for pension costs.

Mr. Sprouse also objects to this Statement's accounting for a business combination under the purchase method that calls for recognition of an asset or liability based on the *projected* benefit obligation as of the date of the combination. For the reasons given above, he holds that the excess of the projected benefit obligation over plan assets does not qualify for recognition as an employer's liability, and plan assets in excess of *accumulated* benefits do qualify for recognition as an employer's asset. In his view, the fallacy of the Statement's requirement is demonstrated by the need to recognize a different net pension obligation or asset if the acquirer plans to terminate the plan than is recognized if the acquirer plans to continue it.

Mr. Wyatt believes the projected benefit obligation, as defined in this Statement, should be the measure of the pension obligation reported in the financial statements. He believes that neither the excess of net periodic pension cost over amounts contributed (unfunded accrued cost) nor the accumulated benefit obligation is an appropriate measure of an entity's pension obligation. He also believes that the use of a market-related asset value base for effecting the delayed recognition of actuarial gains and losses unnecessarily perpetuates an unsound measure for plan assets. As a result, this Statement falls short of achieving the degree of improvement in accounting for pension costs that was attainable and that users of financial statements could justifiably expect from this project.

A majority of the Board concluded that the pension liability is not properly measured by the unfunded accrued cost. Mr. Wyatt agrees with that conclusion. He believes, however, that the accumulated benefit obligation cannot be a faithful presentation of the pension obligation because its determination involves a fundamental inconsistency. The scheduled future pension benefits under this notion exclude any estimates of salary progression, whether based on estimated inflation or other factors. As a result, the amounts that provide the basis for the measure of the obligation do not represent the actual estimated cash flows in future periods. The interest rate used to reduce those scheduled future pension benefits to a present value is a rate at which the pension benefits could effectively be settled. Such a rate incorporates an existing anticipation of future inflation. Thus, the discounting process effectively removes an estimated inflation factor from a series of scheduled future payments that have been measured by specifically excluding any estimate for future inflation. The resulting amount has estimated future inflation removed twice and therefore is not a faithful measure of a liability; in fact, it understates the appropriate measure of the liability, grossly so in some cases.

Mr. Wyatt believes that the use of a market-related asset value as a basis for delayed recognition of gains and losses compromises the rationale that supports use of fair value to measure assets for other aspects of this Statement. It perpetuates a notion ("actuarial asset value") that has no basis as an accounting concept. Furthermore, other approaches to implement the delayed recognition of unamortized gains and losses are available that could only be perceived as practical in nature and that would not carry over into future considerations of pension accounting a concept that persists in spite of its conceptual defects.

The use of a market-related asset value and an expected rate of return on assets to measure the amortization of unrecognized gains and losses introduces unnecessary flexibility into a process that could justifiably be made uniform because it is inherently a practical mechanism to mitigate volatility. Such flexibility diminishes the improvements in comparability, as related to practice under Opinion 8, achieved by adoption of a single attribution method and an assumed discount rate that reflects the rates at which pension benefits could effectively be settled.

Mr. Wyatt agrees with the assenters that, on an overall basis, the conclusions in this Statement will lead to improvements in accounting for and understanding of pension costs. He believes, however, that the degree of improvement is modest when related to the improvement that he believes should have been achieved. Thus, in his view the Statement's deficiencies represent a lost opportunity for improvement in financial reporting.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
Victor H. Brown
Raymond C. Lauver
David Mosso
Robert T. Sprouse
Arthur R. Wyatt

Notes to FAS 87

Note 1
Words that appear in the glossary are set in **boldface type** the first time that they appear.

Note 2
This Statement uses the term *net periodic pension cost* rather than *net pension expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.

~~Note 3~~

~~The Board has a separate project on its agenda to address accounting for postemployment benefits other than pensions. The fact that this Statement does not apply to postemployment health care benefits does not mean that the Board is proscribing or discouraging accrual of the cost of those benefits.~~

Note 4
The interest cost component of net periodic pension cost shall not be considered to be interest for purposes of applying FASB Statement No. 34, *Capitalization of Interest Cost*.

Note 5

Accounting for **plan terminations** and **curtailments** and other circumstances in which recognition of gains and losses might not be delayed is addressed in FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

Note 6
The amortization must always reduce the beginning-of-the-year balance. Amortization of a net unrecognized gain results in a decrease in net periodic pension cost; amortization of a net unrecognized loss results in an increase in net periodic pension cost.

Note 7
For purposes of this paragraph, an unrecognized net obligation existing at the date of initial application of this Statement (paragraph 77) shall be treated as unrecognized prior service cost.

Note 8
Some plans define different benefits for different years of service. For example, a step-rate plan

might provide a benefit of 1 percent of final pay for each year of service up to 20 years and 1½ percent of final pay for years of service in excess of 20. Another plan might provide 1 percent of final pay for each year of service but limit the total benefit to no more than 20 percent of final pay. For such plans the attribution called for by this Statement will not assign the same amount of pension benefit to each year of service.

Note 9
For example, a supplemental early retirement benefit that is a vested benefit after a stated number of years.

Note 10
For example, a death or disability benefit that is payable only if death or disability occurs during active service.

Note 11
For example, those currently imposed by Section 415 of the Internal Revenue Code.

Note 12

For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables*. If significant, the fair value of an investment shall reflect the brokerage commissions and other costs normally incurred in a sale.

http://www.pwccomperio.com/contents/english/external/us/fasb_op/fas135.htm - fas135, par. 4(p)Note 13
The net total of other components is the net effect during the period of certain delayed recognition provisions of this Statement. That net total includes:

~~a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)~~

~~b. Amortization of the net gain or loss from earlier periods~~

~~c. Amortization of unrecognized prior service cost~~

~~d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of this Statement.~~

Note 14

If the insurance company does business primarily with the employer and related parties (a **captive insurer**), or if there is any reasonable doubt that the insurance company will meet its obligations under the contract, the contract is not an annuity contract for purposes of this Statement. Some contracts provide for a refund of premiums if an employee for whom an annuity is purchased does not render sufficient service for the benefit to vest under the terms of the plan. Such a provision shall not by itself preclude a contract from being treated as an annuity contract for purposes of this Statement.

Browse Location: United States\Financial Accounting Standards Board (FASB)\Original Pronouncements\FASB Statements (FAS)\FAS 126 to present (Issued since Dec 1996)
Publish Date: 11 October, 2002

FAS 132: Employers' Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106

FAS 132 STATUS

Issued:	February 1998
Effective Date:	For fiscal years beginning after December 15, 1997
Affects:	Supersedes FAS 87, paragraphs 54, 56, 65, and 69 and Illustration 6 Supersedes FAS 88, paragraph 17 Supersedes FAS 106, paragraphs 74, 77, 78, 82, 106, and 479 through 483
Affected by:	Paragraphs 12(b) and 63 amended by FAS 135 Paragraphs 12(d) and 14(e) superseded by FAS 135

FAS 132 Summary

This Statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* were issued. The Statement suggests combined formats for presentation of pension and other postretirement benefit disclosures. The Statement also permits reduced disclosures for nonpublic entities.

This Statement is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. Restatement of disclosures for earlier periods provided for comparative purposes is required unless the information is not readily available, in which case the notes to the financial statements should include all available information and a description of the information not available.

INTRODUCTION

1. The Board added a project on effectiveness of disclosures about pensions and other postretirement benefits to its technical agenda in October 1996 in response to concerns about disclosure discussed in the 1994 report of the AICPA Special Committee on Financial Reporting,

Improving Business Reporting-A Customer Focus, and the July 1995 FASB Prospectus, *Disclosure Effectiveness.* The project's objective was twofold: (a) to improve disclosures about pensions and other postretirement benefits and (b) to determine whether any of the approaches undertaken to improve those disclosures might apply to other accounting topics.

2. Although current disclosure requirements for pensions and other postretirement benefits are extensive, many users of financial statements told the Board in their responses to the Prospectus that the information provided only partly met their needs. Most of those users wanted information that would assist them in (a) evaluating the employer's obligation under pension and other postretirement benefit plans and the effects on the employer's prospects for future cash flows, (b) analyzing the quality of currently reported net income, and (c) estimating future reported net income. The Board concluded that disclosures about pensions and other postretirement benefits could be improved to provide information that is more comparable, understandable, and concise and that would better serve users' needs.

3. This Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Appendix A contains background information and the basis for the Board's conclusions. Appendix B contains illustrations of suggested formats for presenting the required disclosures.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

4. This Statement supersedes the disclosure requirements in FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 88*, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. [1] This Statement addresses disclosure only. It does not address measurement or recognition. Information required to be disclosed about pensions and other postretirement benefits shall not be combined except as permitted by paragraph 10 of this Statement.

Disclosures about Pensions and Other Postretirement Benefits

5. An employer that sponsors one or more defined benefit pension plans or one or more defined benefit postretirement plans shall provide the following information:

a. A reconciliation of beginning and ending balances of the benefit obligation [2] showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, [3] benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits

b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, [4] contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements

c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:

   (1) The amount of any unamortized prior service cost

(2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)

(3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of Statement 87 or 106

(4) The net pension or other postretirement benefit prepaid assets or accrued liabilities

(5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended

d. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment

e. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended

f. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets

g. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved

h. The effect of a one-percentage-point increase and the effect of a one-percentage- point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (2) the accumulated postretirement benefit obligation for health care benefits (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)

i. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period

j. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of Statement 87 or paragraphs 53 and 60 of Statement 106

k. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation

l. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event

m. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement.

Amounts related to the employer's results of operations shall be disclosed for each period for which an income statement is presented. Amounts related to the employer's statement of financial position shall be disclosed for each balance sheet presented.

Employers with Two or More Plans

6. The disclosures required by this Statement may be aggregated for all of an employer's defined benefit pension plans and may be aggregated for all of an employer's defined benefit postretirement plans or may be disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for postretirement plans. However, if those disclosures are combined, an employer shall disclose the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets also shall be disclosed. Disclosure of amounts recognized in the statement of financial position shall present prepaid benefit costs and accrued benefit liabilities separately.

7. An employer may combine disclosures about pension or postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions.

Reduced Disclosure Requirements for Nonpublic Entities

8. A nonpublic entity [5] may elect to disclose the following for its pension and other postretirement benefit plans in lieu of the disclosures required by paragraph 5 of this Statement:

a. The benefit obligation, fair value of plan assets, and funded status of the plan

b. Employer contributions, participant contributions, and benefits paid

c. The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended

d. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended

e. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets

f. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved

g. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period

h. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.

Defined Contribution Plans

9. An employer shall disclose the amount of cost recognized for defined contribution pension or other postretirement benefit plans during the period separately from the amount of cost recognized for defined benefit plans. The disclosures shall include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

Multiemployer Plans

10. An employer shall disclose the amount of contributions to multiemployer plans during the period. An employer may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

11. Paragraph 70 of Statement 87 and paragraph 83 of Statement 106 are carried forward without reconsideration. Paragraphs 70 and 83 read as follows:

> In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of FASB Statement No. 5, *Accounting for Contingencies,* shall apply.
>
> In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), the employer shall apply the provisions of FASB Statement No. 5*, Accounting for Contingencies*.

Amendments to Existing Pronouncements

12. FASB Statement No. 87, *Employers' Accounting for Pensions,* is amended as follows:

a. Paragraph 54 is replaced by the following:

Refer to paragraphs 5 and 8 of FASB Statement No.132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

b. ~~Paragraphs 55 and 56 are~~ replaced by the following:

Refer to paragraphs 6 and 7 of Statement 132.

c. Paragraph 65 is replaced by the following:

Refer to paragraph 9 of Statement 132.

~~d. Paragraph 66 is replaced by the following:~~

~~Refer to paragraphs 5 and 8 of Statement 132.~~

e. Paragraph 69 is replaced by the following:

Refer to paragraph 10 of Statement 132.

13. Paragraph 17 of FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* is replaced by the following:

Refer to paragraphs 5(a), 5(b), 5(d), 5(l), and 8(h) of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

14. FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* is amended as follows:

a. Paragraph 74 is replaced by the following:

Refer to paragraphs 5 and 8 of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

b. Paragraphs 77 and 78 are replaced by the following:

Refer to paragraphs 6 and 7 of Statement 132.

c. Paragraph 82 is replaced by the following:

Refer to paragraph 10 of Statement 132.

d. Paragraph 106 is replaced by the following:

Refer to paragraph 9 of Statement 132.

~~e. Paragraph 107 is replaced by the following:~~

~~Refer to paragraphs 5 and 8 of Statement 132.~~

Effective Date

15. This Statement shall be effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. Restatement of disclosures for earlier periods provided for comparative purposes is required unless the information is not readily available, in which case the notes to the financial statements shall include all available information and a description of the

information not available.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Edmund L. Jenkins, *Chairman*
Joseph V. Anania
Anthony T. Cope
John M. Foster
Gaylen N. Larson
James J. Leisenring
Gerhard G. Mueller

Appendix A: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

16. This appendix summarizes considerations that were deemed significant by Board members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing.

17. The AICPA Special Committee on Financial Reporting (Special Committee) issued a report, *Improving Business Reporting-A Customer Focus,* in December 1994. In that report, the Special Committee recommended that "standard setters should search for and eliminate less relevant disclosures." The Special Committee also noted that many users indicated that "they would be willing to give up less important disclosures to make room for more important information."

18. Disclosure effectiveness has been a concern of the Board for some time. FASB documents that have addressed this issue include the 1980 Invitation to Comment, *Financial Statements and Other Means of Financial Reporting,* and the 1981 Exposure Draft, *Reporting Income, Cash Flows, and Financial Position of Business Enterprises.* Board members and FASB staff have written numerous articles on the topic. In addition, disclosure effectiveness was discussed at an April 1995 Financial Accounting Standards Advisory Council (FASAC) meeting and at several liaison meetings during 1995.

19. The Board issued a Prospectus, *Disclosure Effectiveness,* in July 1995. The Prospectus asked readers to consider possible changes to disclosure requirements consistent with one or both of two objectives: to reduce the cost of preparing and disseminating disclosures while providing users with information they need and to eliminate disclosures that are not useful for decision making. The Prospectus also encouraged further research and discussion on improving the effectiveness of financial reporting.

20. The Board received 71 letters in response to the Prospectus. Respondents generally supported a project to improve disclosure effectiveness, and many respondents suggested that pensions, other postretirement benefits, income taxes, and leases were topics that required specific attention. Several respondents suggested that the Board develop a framework for disclosure.

21. At the January 1996 FASAC meeting, several Council members suggested that the Board take an inductive approach to disclosure effectiveness, beginning by evaluating the requirements

for disclosure about pensions and other postretirement benefits. A working group of FASAC members was formed to follow up on that suggestion. That group prepared a proposal that was discussed at the July 1996 FASAC meeting and in August 1996 at a public Board meeting with representatives of the Financial Executives Institute, the Association for Investment Management and Research, and other interested parties.

A Conceptual Framework for Disclosure

22. Some participants in the August 1996 meeting did not favor proceeding with a project before defining the general objectives of disclosure. The Board considered developing a framework for disclosure based on FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises,* and a review of published studies but concluded that not enough information was available to formulate a framework at that time. In October 1996, the Board decided to proceed with an inductive approach to disclosure by initiating a project to examine pensions and other postretirement benefits to determine whether disclosures in that specific area could be improved, and, if so, whether any of the approaches undertaken could be applied to other accounting topics.

23. In June 1997, the Board issued an Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The Board received 90 comment letters in response to that Exposure Draft. Most respondents supported the Board's goal of improving disclosure effectiveness and generally stated that the revised disclosures proposed in the Exposure Draft were an improvement over those required by Statements 87, and 106. A few respondents noted that they were able to easily apply the requirements of the Exposure Draft to their prior year's pension and other postretirement benefits note disclosures and that the requirements resulted in more understandable disclosure.

General Considerations

24. Discussions with certain users of financial statements indicated that the disclosures required by Statements 87 and 106, although extensive, did not provide sufficient information to understand the changes in the benefit obligation or to analyze the quality of earnings. This Statement is intended to enhance the utility of the information disclosed.

25. As a result of those discussions, the Board identified two distinct sets of information used by analysts. Some requested information that enabled them to analyze the benefit obligation, fair value of plan assets, and changes in both during the period, including unrecognized gains and losses. The Board stated in Statement 87 that it believed that "it would be conceptually appropriate and preferable to recognize a net pension liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of gains and losses, or perhaps with gains and losses reported currently in

comprehensive income but not in earnings" (paragraph 107). However, because Statement 87 did not require that accounting, the Board decided that this Statement should require disclosure of additional information about the changes in the benefit obligation and the fair value of plan assets during the period, including unrecognized gains and losses.

26. The second set of information was most often requested by those analysts who follow publicly traded companies. Those users stated that they needed information about the quality of current earnings, including recognized and unrecognized amounts, that is useful in forecasting earnings for future periods in an effective and efficient manner.

27. This Statement standardizes the disclosure requirements of Statements 87 and 106 to the extent practicable so that the required information should be easier to prepare and easier to understand. This Statement also suggests a parallel format for presenting information about pensions and other postretirement benefits in a more understandable manner.

Benefits and Costs

28. Most or all of the additional information required by this Statement should be already available in actuarial or accounting calculations used to account for an employer's pension and other postretirement benefit plans. The Board believes that standardizing the format of the disclosures and eliminating some of the current requirements may reduce preparation time. The benefits to users are in the form of additional relevant amounts and reduced time and effort required to read and understand the pension and other postretirement benefit notes to the financial statements.

Specific Disclosure Requirements

Benefit Obligation and Fair Value of Plan Assets

29. The Board concluded in Statements 87 and 106 that disclosure of the benefit obligation and fair value of plan assets is essential to an understanding of the economics of the employer's benefit plans and that disclosure of the fair value of plan assets is useful in assessing management's stewardship responsibilities for efficient use of those assets.

30. Because the obligation and plan assets are offset in determining the amounts recognized in the statement of financial position and offsetting of assets and liabilities generally is not appropriate unless a right of offset exists, [6] disclosure of the amounts offset provides essential information about future economic benefits and sacrifices.

Explanation of the Changes in the Benefit Obligation and the Fair Value of Plan Assets

31. This Statement amends Statements 87 and 106 to include disclosure of the changes in the benefit obligation and plan assets during the period, including the effects of economic events during the period (including amendments, combinations, divestitures, curtailments, and settlements). Statement 87 required disclosure of the nature and effect of significant matters affecting comparability of information for all periods presented. Statement 106 required the same disclosure but specifically referred to business combinations or divestitures. In practice, those requirements have not resulted in the anticipated level of disclosure. The Board believes that an explanation of the changes in the benefit obligation and fair value of plan assets in the form of a reconciliation of the beginning and ending balances will provide a format for more complete disclosure that also should be more understandable to users of financial statements.

32. Disclosure of the benefit obligation, fair value of plan assets, and changes in them during the period is consistent with the Board's conceptual framework, which states that "financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources" (Concepts Statement 1, paragraph 40; footnote reference omitted).

Reconciliation of the Funded Status with the Amounts Recognized in the Financial Statements

33. Both Statement 87 and Statement 106 require a reconciliation of the funded status of the plan with the amounts recognized in the financial statements. The Board considered eliminating those requirements but decided to retain them in this Statement after financial analysts commented that information about unamortized balances of prior service cost and transition amounts is useful in assessing current earnings and forecasting future amortization. The Board also concluded, as it did in Statement 87, that the amount recognized in the financial statements as a net benefit liability or asset does not reflect fully the underlying financial status of the plan and that a reconciliation of the amounts is essential to an understanding of the relationship between the accounting methodology and the funded status of the plan. For those reasons the

Board decided to retain disclosure of the unrecognized amounts, including unamortized prior service cost, unamortized transition amounts, and unrecognized gains and losses.

34. If an additional minimum liability is recognized, the reconciliation includes disclosure of any amount recognized as an intangible asset or included in accumulated other comprehensive income. The format recommended in Statement 87 disclosed those amounts as an additional minimum liability. The format that is illustrated in this Statement includes all amounts recognized.

Components of Net Periodic Benefit Cost

35. The Exposure Draft proposed eliminating the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost. Several respondents suggested that that disclosure be retained to provide greater visibility of the amounts included in the employer's results of operations. In addition, certain users, primarily equity analysts, stated that information included in that disclosure was useful in forecasting an employer's net income. In response to those concerns, the Board decided to retain the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost and to add disclosures about the expected return on plan assets, the amortization of the transition obligation or asset, and the recognition of gains and losses.

Employers with Two or More Plans

36. Both Statement 87 and Statement 106 required additional disclosure of certain benefit plan information if an employer has plans with benefit obligations in excess of plan assets and plans with assets in excess of benefit obligations. Statement 87 required separate schedules reconciling the funded status of the plan with amounts reported in the employer's statement of financial position for plans with assets in excess of accumulated pension benefit obligations and plans with accumulated pension benefit obligations in excess of plan assets. Statement 106 required separate disclosure of the aggregate plan assets and the aggregate benefit obligation of underfunded plans. The Board decided to change the requirements for pension plans to parallel those for other postretirement benefit plans because those requirements are less complex and provide satisfactory information about the financial position of an employer's plans. The Board decided to retain disclosure of the accumulated pension benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets because that disclosure is useful to regulators and other users of financial information. The Board included a requirement to disclose separately amounts recognized as prepaid benefit costs and accrued benefit costs so that users could determine the amounts included in the statement of financial position.

37. Some respondents to the Exposure Draft, including preparers, disagreed with the Board's decision to permit aggregation of disclosures about plans with different characteristics. They stated that users of financial statements could draw incorrect conclusions about an employer's funding policies or that employers would be able to offset underfunded plans with well-funded plans. The Board decided that permitting the aggregation of disclosures about multiple plans will simplify disclosure and will conform disclosures about pensions to those about other postretirement plans while continuing to provide users with sufficient information about the employer's plans. The Board also noted that, while aggregation of disclosures about plans is permitted by this Statement, an employer may disclose additional disaggregated information if the employer believes doing so provides more meaningful information.

Foreign Plans

38. Statement 87 specified that disclosures about plans outside the United States should not be combined with those about U.S. plans unless those plans use similar assumptions. Statement 106 required separate presentation for foreign plans if the benefit obligations are significant relative to the total benefit obligation for all plans. The Board decided to harmonize those disclosures with this Statement. Accordingly, the Board decided that disclosures about U.S. plans

may be combined with those about foreign plans unless the benefit obligations of the foreign plans are significant relative to the employer's total benefit obligation and those plans use significantly different assumptions.

39. Some respondents to the Exposure Draft noted that some foreign plans typically are not funded because there are no tax advantages to funding plans in those jurisdictions. Those respondents suggested that the benefit obligation related to foreign plans be disclosed separately because combining disclosures about foreign and U.S. plans might be misleading. The Board believes that the requirements of paragraph 6 of this Statement will adequately inform users about the presence of underfunded plans. The Board also decided that whether aggregation of disclosures about underfunded plans was appropriate should not depend on whether the plans are located within the United States or abroad.

Assumed Health Care Cost Trend Rates

40. Statement 106 requires disclosure of the assumed health care cost trend rate for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in assumed trend rates thereafter, together with the ultimate trend rate and when that rate was expected to be achieved. All other requirements for disclosure of plan assumptions in Statements 87 and 106 call for disclosure of weighted-average rates. The Exposure Draft that led to Statement 106 proposed disclosure of a weighted average of the assumed health care cost trend rates, but in its deliberations the Board decided that a weighted-average rate can mask differences in an employer's assumptions about year-by-year health care cost trend rates. In the Exposure Draft that led to this Statement, the Board reconsidered the disclosure requirement for assumed health care cost trend rates and decided that disclosure of a weighted-average rate would provide for better comparability among entities and with other assumptions that are disclosed on a weighted-average basis.

41. Some respondents to the Exposure Draft stated that the cost of calculating that disclosure could be significant and argued that the increased cost was not justified in the circumstances. Others reiterated the comments made prior to the issuance of Statement 106 about the potential for the use of a weighted-average rate to mask differences in year-by-year health care cost assumptions. Although some Board members continue to believe that disclosure of the weighted-average rate is more effective, the Board ultimately decided that the disclosures about health care cost trend rate assumptions in Statement 106 provide satisfactory information and that disclosure of a weighted-average measure should not be required, primarily because of respondents' assertions about the incremental cost to provide that information.

The Effects of a One-Percentage-Point Change in the Assumed Health Care Cost Trend Rates

42. Statement 106 requires disclosure of the effects of a one-percentage-point increase in the assumed health care cost trend rates for each future year on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. The Board decided to retain the sensitivity analysis disclosure in Statement 106 and, in addition, to require disclosure of the effects of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. Most respondents to the Exposure Draft commented on that additional disclosure requirement. The majority stated that the effects of a one-percentage-point decrease should not be required, and many respondents opposed any sensitivity information.

43. Some Board members questioned the usefulness of a disclosure that focuses on the effects of a change in a single assumption underlying the calculation of the benefit obligation. They noted

that calculating the accumulated postretirement benefit obligation requires numerous assumptions and estimates. Changes in certain of those assumptions and estimates may have a much more significant effect on the employer's obligation than changes in the assumed heath care cost trend rates. Moreover, those Board members noted that many assumptions and estimates underlie an entity's financial statements and that one should not focus on the change in a single factor to the exclusion of others that may be equally or more important. Those Board members advocated eliminating the sensitivity analysis as described in the Exposure Draft in favor of examining outside of this project the broader issue of disclosures about risks and uncertainties.

44. Those Board members also noted that the disclosure of a one-percentage-point increase required by Statement 106 was included in that Statement because, at the time, ". . . users [were] considerably less familiar with postretirement health care measurements than with pension measurements and with the subjectivity of the health care cost trend rate and the significant effect that assumption may have on measurement of the postretirement health care obligation" (paragraph 355). Those Board members believe that users are now sufficiently familiar with the effects of changes in health care trend rates on the postretirement health care obligation and, therefore, this disclosure is no longer useful. Accordingly, they expressed strong reservations about retaining it in this Statement.

45. However, a majority of the Board concluded that disclosure of the effects of a one-percentage-point increase and a one-percentage-point decrease in the assumed health care cost trend rate provides useful information to users of financial statements. As previously stated in Statement 106, requiring ". . . sensitivity information will assist users in assessing the comparability of information reported by different employers as well as the extent to which future changes in assumptions or actual experience different from that assumed may affect the measurement of the obligation and cost. In addition, the sensitivity information may assist users in understanding the relative significance of an employer's cost-sharing policy as encompassed by the employer's substantive plan" (paragraph 354). The Board concluded that those considerations remain relevant today. It noted that sensitivity disclosures are consistent with the recommendations of the AICPA Special Committee for improved disclosure about the uncertainty inherent in the measurement of certain assets and liabilities. Some Board members also noted that the effects of a one-percentage-point change in a plan's assumed health care cost trend rate would be difficult to assess because the way in which health care cost assumptions interact with caps, cost-sharing provisions, and other factors in the plan precludes reasonable estimates of the effects of those changes. The effects of changes in other assumptions, such as the weighted-average discount rate, can be more easily approximated.

46. The Board decided to retain the requirement to disclose the effects of both an increase and a decrease in the assumed health care cost trend rates because the effects of an increase and a decrease are not necessarily symmetrical for a plan due to the way in which health care cost assumptions interact with caps or other cost-sharing provisions and for other reasons. In addition, because the growth in the rate of health care costs has decreased for many plans since the issuance of Statement 106, disclosure of the effects of a decrease in the assumed health care cost trend rates may provide more relevant information than the effects of an increase.

Related Party Transactions

47. Both Statement 87 and Statement 106 required disclosure of the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties. The Board decided to retain those disclosure requirements in this Statement. The Board also decided to require added disclosures about any significant

transactions between the plan and the employer during the period, including noncash transactions, because of the relevance of information about related party transactions, as described in the basis for conclusions to FASB Statement No. 57, *Related Party Disclosures.*

Other Disclosures Considered

Concentrations of Market Risk

48. The Board considered whether an employer should disclose concentrations of market risk in plan assets. FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* requires disclosure of the nature of and carrying amount for each individual investment or group of investments that represents a significant concentration of market risk. The Board concluded that disclosures needed about plan assets differ from those about investments held by not-for-profit organizations because trustees of benefit plans are usually constrained to follow policies for the sole benefit of the plan beneficiaries, whereas fund managers of not-for-profit organizations may be constrained only by donor restrictions. Also, provisions of the Employee Retirement Income Security Act generally require that plan trustees diversify plan investments. Consequently, the usefulness of that disclosure requirement for U.S. plans could be limited.

49. Several respondents to the Exposure Draft asked that the Board also consider requiring disclosure of the composition of plan assets as a means of enabling users to assess concentrations of risk in the plan's portfolio. The Board noted that disclosure of the type of information about plan assets that would be required to enable the user to identify and assess concentrations of risk would be extensive, in certain circumstances requiring disclosure about individual securities. The Board decided that requiring extensive disclosures about the composition of plan assets in the employer's financial statements would add significant complexity to the disclosure and was generally inconsistent with its objective of promoting more effective disclosure.

Components of the Benefit Obligation

50. Statements 87 and 106 required disclosure of several components of the benefit obligation. Statement 87 required disclosure of the accumulated pension benefit obligation and the vested pension benefit obligation. Statement 106 required disclosure of the portions of the plan obligation attributable to retirees, other fully eligible plan participants, and other active plan participants.

51. Disclosure of the accumulated pension benefit obligation and vested pension benefit obligation was considered relevant when Statement 87 was issued because there was less agreement at that time as to the best measure of the pension benefit obligation. Some respondents to the Exposure Draft that led to Statement 87 would have limited the recognized liability to the vested pension benefit obligation. In the deliberations preceding the issuance of Statement 87, the Board considered a minimum liability based on the vested pension benefit obligation but concluded that the time at which benefits vest should not be the primary point for recognition of either cost or liabilities. The disclosure requirements of Statement 106 for the portion attributable to retirees, other fully eligible plan participants, and other active plan participants are proxies for disclosure of the vested and nonvested benefit obligation for other postretirement benefit obligations.

52. The Board decided to eliminate the requirement to disclose (a) accumulated pension benefit obligations for plans with assets that exceed that amount, (b) vested pension benefit obligations, and (c) the portions of other postretirement benefit plan obligations attributable to retirees, other fully eligible plan participants, and other active plan participants. None of those amounts are used to forecast pension or other postretirement benefit costs or obligations, and, therefore, those amounts have limited relevance to users of financial statements. The Board decided to retain

disclosure of the accumulated pension benefit obligation for plans with accumulated pension benefit obligations in excess of plan assets because that component is used to determine the minimum liability and may be relevant to users of financial statements.

General Descriptive Information

53. Both Statement 87 and Statement 106 required disclosure of general descriptive information about the employer's benefit plans, including employee groups covered, type of benefit formula, funding policy, types of assets held, and significant nonbenefit liabilities, if any. This Statement does not require that disclosure because the Board believes it provides only limited useful information to users of financial statements due to the general nature of the information provided, particularly after aggregating information about multiple plans with different characteristics. In lieu of that disclosure, this Statement requires disclosure of significant events occurring during the period that are otherwise not apparent in the disclosures, as that information is more relevant to users of financial statements. Several respondents to the Exposure Draft stated that the description of the plan required by Statements 87 and 106 can provide useful information about the plan. The Board therefore encourages an employer to provide a description of its plans if such a description would provide meaningful information, such as when the employer sponsors only a single plan.

Materiality

54. The Board considered whether this Statement should include a materiality threshold for requiring certain disclosures about pension and other postretirement benefit plans. Materiality and relevance are both defined in terms of what influences or makes a difference to a decision maker. The Board's position is that "no general standards of materiality could be formulated to take into account all the considerations that enter into an experienced human judgment," but that quantitative materiality criteria may be given by the Board in specific standards, as appropriate

(FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* paragraph 131).

55. The Board considered implementing materiality thresholds for pension and other postretirement benefit disclosures, including thresholds based on the gross obligations for plan benefits and the employer's assets, equity, revenues, or net income. Each measure had disadvantages. Because a materiality threshold should take into account the information most likely to influence or make a difference to a decision maker, net income appeared to be the most relevant element for publicly traded companies. Some analysts use information about current benefit costs and the funded status of the plan to assess the quality of current earnings and the employer's financial condition. They also use that information to prepare their forecasts of future earnings, measuring the impact on net income as precisely as possible. The Board concluded that a precise threshold in terms of net income was not practicable because of the natural volatility of net income and the resulting difficulty in making materiality judgments with a relatively simple materiality rule. Therefore, this Statement does not include a materiality threshold. However, that does not imply that the provisions of this Statement must be applied to immaterial items. Some entities may determine that some or all pension or other postretirement benefit disclosures are not material after evaluation of all the relevant facts and circumstances.

Nonpublic Entities

56. The *Report of the Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses,* issued by the AICPA in August 1976, observed that some disclosures merely provide additional or analytical data and may not be appropriate for all entities. The Committee also observed, however, that analytical data may be appropriate in certain circumstances for certain types of entities.

57. Before issuing the Exposure Draft, the Board had asked certain users of financial statements of nonpublic entities to comment on the usefulness of current and proposed disclosure requirements. Those users observed that they did not require the same level of precision in assessing benefit costs and net income when analyzing the financial statements of nonpublic entities but that they did rely on information about the benefit obligations, assets, and cash flows. Based on the input of those users, the Board concluded that a reduced disclosure set would be appropriate for nonpublic entities. The Board determined that a nonpublic entity should, at a minimum, provide the same information about the benefit obligations, plan assets, recognized assets or liabilities, cash flows, benefit costs, actuarial assumptions, and related party transactions as required for a public entity.

58. The Exposure Draft would have required that a nonpublic entity disclose all of the information in paragraph 5 if total unrecognized pension and other postretirement benefit amounts exceeded 5 percent of equity (or unrestricted net assets). Many respondents objected to that provision out of concern that it might be viewed as the establishment of a materiality standard that could be applied in other circumstances. The Board decided not to require that disclosure but, rather, to provide for reduced disclosures for all nonpublic entities. The Board concluded that introducing a specific threshold was therefore unnecessary.

59. However, because nonpublic entities are not required to provide a reconciliation of the benefit obligation or the fair value of plan assets under the provisions of this Statement, the Board decided to require disclosure of information about the effects of significant nonroutine events during the period, such as amendments, combinations, divestitures, curtailments, and settlements, whenever those events occur. The Board believes that that disclosure is necessary for users of financial statements to understand the effects of those changes that otherwise might not be apparent. Even though this Statement permits reduced disclosures for nonpublic entities, the Board concluded that the incremental information required by paragraph 5 improves understanding and, therefore, encourages those entities to disclose that information.

Effective Date and Transition

60. This Statement is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. The Board decided that the disclosures required by this Statement should be provided for earlier periods presented for comparative purposes, unless that information is not readily available. The Board believes that application of this Statement should not impose a hardship on most preparers of financial statements because the systems necessary to provide most, if not all, of the required disclosures are already in place. For that reason, disclosure of comparable prior-year information should not be difficult for most entities.

Appendix B: ILLUSTRATIONS

61. This appendix provides examples that illustrate a parallel format for presenting pension and other postretirement benefit disclosures in a single note to the financial statements. The items presented in these examples have been included for illustrative purposes. However, items may

be combined if individually immaterial. The illustrations in this appendix supersede

Illustration 6 in Statement 87 and Illustration 7 in Statement 106.

Illustration 1-Disclosures about Pension and Other Postretirement Benefit Plans

62. The following illustrates the 20X2 financial statement disclosures for an employer (Company A) with multiple defined benefit pension and other postretirement benefit plans. There is no additional minimum pension liability required to be recognized. During 20X2, the employer had an

acquisition and made amendments to the plans.

	Pension Benefits		Other Benefits	
	20X2	**20X1**	**20X2**	**20X1**
Change in benefit obligation				
Benefit obligation at beginning of year	$1,266	$1,200	$ 738	$ 700
Service cost	76	72	36	32
Interest cost	114	108	65	63
Plan participants' contributions			20	13
Amendments	120		75	
Actuarial gain	(25)		(24)	
Acquisition	900		600	
Benefits paid	(125)	(114)	(90)	(70)
Benefit obligation at end of year	2,326	1,266	1,420	738
Change in plan assets				
Fair value of plan assets at beginning of year	$1,068	880	206	87
Actual return on plan assets	29	188	(3)	24
Acquisition	1,000		25	
Employer contribution	75	114	171	152
Plan participants' contributions			20	13
Benefits paid	(125)	(114)	(90)	(70)
Fair value of plan assets at end of year	2,047	1,068	329	206
Funded status	(279)	(198)	(1,091)	(532)
Unrecognized net actuarial loss	83	38	59	60
Unrecognized prior service cost	260	160	585	540
Prepaid (accrued) benefit cost	$ 64	$ 0	$ (447)	$ 68

	Pension Benefits		Other Benefits	
	20X2	**20X1**	**20X2**	**20X1**
Weighted-average assumptions as of December 31				
Discount rate	9.25%	9.00%	9.00%	9.00%
Expected return on plan assets	10.00	10.00	10.00	10.00
Rate compensation increase	5.00	5.00		

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 4 percent for 20X9 and remain at that level thereafter.

	Pension Benefits		Other Benefits	
	20X2	**20X1**	**20X2**	**20X1**
Components of net periodic benefit cost				
Service cost	$ 76	$ 72	$ 36	$ 32
Interest cost	114	108	65	63
Expected return on plan assets	(107)	(88)	(21)	(9)
Amortization of prior service cost	20	20	30	30
Recognized net actuarial loss	8	2	1	1
Net periodic benefit cost	$ 111	$ 114	$111	$117

Company A acquired FV Industries on December 31, 20X2, including its pension and postretirement benefit plans. The company's plans were amended on December 31, 20X2, to establish parity with the benefits provided by FV Industries.

The company has multiple nonpension postretirement benefit plans. The health care plans are contributory, with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plan that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of the excess of the expected general inflation rate over 6 percent. On December 31, 20X2, the company amended its postretirement health care plans to provide long-term care coverage.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 22	$ (20)
Effect on postretirement benefit obligation	173	(156)

Illustration 2-Disclosures for an Employer That Recognizes a Minimum Liability

63. The following illustrates the 20X2 financial statement disclosures if an employer (Company B) has multiple benefit plans including one pension plan for which the employer must recognize an additional minimum liability in accordance with the provisions of paragraph 36 of Statement 87. As of December 31, 20X2, the assumptions are as follows:

- The accrued pension benefit cost for the underfunded plan is $89.
- The minimum liability is $153; thus, the additional minimum liability is $64. The additional minimum liability was $53 in the prior year.
- The total unrecognized ~~transition obligation~~ for the underfunded plan is $50.
- The entry to record the change in the additional minimum liability for the period is:

Other comprehensive income	14	
Intangible asset		3
Accrued pension benefit cost		11

	Pension Benefits		Other Benefits	
	20X2	**20X1**	**20X2**	**20X1**
Change in benefit obligation				
Benefit obligation at beginning of year	$1,266	$1,200	$ 738	$ 700
Service cost	76	72	36	32
Interest cost	114	108	65	63
Plan participants' contributions			20 13	
Amendments	(20)			

Actuarial gain	(25)		(24)	
Benefits paid	(125)	(114)	(90)	(70)
Benefit obligation at end of year	1,286	1,266	745	738
Change in plan assets				
Fair value of plan assets at beginning of year	1,156	968	206	87
Actual return on plan assets	29	188	(3)	24
Employer contribution	139	114	171	152
Plan participants' contributions			20 13	
Benefits paid	(125)	(114)	(90)	(70)
Fair value of plan assets at end of year	1,199	1,156	304	206
Funded status	(87)	(110)	(441)	(532)
Unrecognized actuarial loss	83	38	59	60
Unrecognized prior service cost	170	225	510	540
Net amount recognized	$ 166	$ 153	$ 128	68
Amounts recognized in the statement of financial position consist of				
Prepaid benefit cost	$ 255	$ 227	$ 128	$ 68
Accrued benefit liability	(153)	(127)		
Intangible asset	50	53		
Accumulated other comprehensive income	14			
Net amount recognized	$ 166	$ 153	$ 128	$ 68

	Pension Benefits		**Other Benefits**	
	20X2	**20X1**	**20X2**	**20X1**
Weighted-average assumptions as of December 31				
Discount rate	9.25%	9.00%	9.00%	9.00%
Expected return on plan assets	10.00	10.00	10.00	10.00
Rate of compensation	5.00	5.00		

increase

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 4 percent for 20X9 and remain at that level thereafter.

	Pension Benefits		**Other Benefits**	
	20X2	**20X1**	**20X2**	**20X1**
Components of net periodic benefit cost				
Service cost	$ 76	$ 72	$ 36	$ 32
Interest cost	114	108	65	63
Expected return on plan assets	(116)	(97)	(21)	(9)
Amortization of prior service cost	35	35	30	30
Recognized actuarial loss	17	11	1	1
Net periodic benefit cost	$ 126	$ 129	$ 111	$ 117

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $263, $237, and $84, respectively, as of December 31, 20X2, and $247, $222, and $95, respectively, as of December 31, 20X1.

Company B has multiple nonpension postretirement benefit plans. The health care plan is contributory with participants' contributions adjusted annually; the life insurance plan is noncontributory. The accounting for the health care plan anticipates future cost-sharing changes to the written plan that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of the excess of the expected general inflation rate over 6 percent. On December 31, 20X2, the company amended its postretirement health care plan to provide long-term-care coverage and amended its pension plan to change the benefit formula.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	**1-Percentage-Point Decrease**
Effect on total of service and interest cost components	$11	$(10)
Effect on postretirement benefit obligation	89	(80)

Illustration 3-Alternative Disclosure for a Nonpublic Entity

64. The following illustrates the 20X2 financial statement disclosures that could be provided by Company A if it were a nonpublic entity.

	Pension Benefits		**Other Benefits**	
	20X2	**20X1**	**20X2**	**20X1**
Benefit obligation at December 31	$2,326	$1,266	$ 1,420	$ 738
Fair value of plan assets at December 31	2 ,047	1,068	329	206
Funded status	$ (279)	$ (198)	$(1,091)	$(532)
Prepaid (accrued) benefit cost recognized in the statement of financial position	$ 64	$ 0	$ (447)	$ 68

	Pension Benefits		**Other Benefits**	
	20X2	**20X1**	**20X2**	**20X1**
Weighted-average assumptions as of December 31				
Discount rate	9.25%	9.00%	9.00%	9.00%
Expected return on plan assets	10.00	10.00	10.00	10.00
Rate of compensation increase	5.00	5.00		

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 4 percent for 20X9 and remain at that level thereafter.

	Pension Benefits		**Other Benefits**	
	20X2	**20X1**	**20X2**	**20X1**
Benefit cost	$111	$114	$111	$117
Employer contribution	75	114	171	152

Plan participants' contributions			20	13
Benefits paid	125	114	90	70

The company acquired FV Industries on December 31, 20X2, increasing the pension benefit obligation by $900 and pension plan assets by $1,000 and increasing the other postretirement benefit obligation by $600 and related plan assets by $25. Amendments during the year to the company's plans increased the pension benefit obligation by $120 and the other postretirement benefit obligation by $75.

Notes to FAS 132

Note 1

Existing requirements related to withdrawal from multiemployer plans contained in

paragraph 70 of Statement 87 and paragraph 83 of Statement 106 are carried forward unchanged and included in paragraph 11 of this Statement.

Note 2
For defined benefit pension plans, the benefit obligation is the projected benefit obligation-the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation-the actuarial present value of benefits attributed to employee service rendered to a particular date.

Note 3
The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to FASB Statement No. 52, *Foreign Currency Translation.* Note 4-Refer to footnote 3.

Note 5
A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b).

Note 6

Refer to APB Opinion No. 10, *Omnibus Opinion-1966,* paragraph 7.

Information Request AG-1-47

Please provide copies of the bond evaluations and analyses of each of the Companies by each of the major bond ratings agencies issued in the last three years.

Response

Please see Attachment AG-1-47 for copies of rating agency evaluations for the last three years.

Information Request AG-1-48

Please provide copies of the NSTAR common stock evaluations and analyses of by the major investment institutions issued in the last three years.

Response

Please see Attachment AG-1-48 for copies of research reports on NSTAR written over the past three years.

Please note that the attachments are bulk documents and are therefore being provided only to the Secretary, the Hearing Officer and the Attorney General. A copy of each is also available for inspection at the Company's offices during normal business hours.

Information Request DTE-2-22

Refer to the response to DTE-1-4, at 1. Please explain why the balance subject to carrying charges appearing on line 17 is supported by embedded capital and not short-term debt.

Response

The Company used the embedded cost of capital because the net prepaid Pension/PBOP amount is a long-term obligation that will take many years to resolve. When a long term asset requires financing it is supported with long term debt which requires equity to maintain a sound capital structure. Short-term debt is typically used for any temporary working capital needs, construction work in progress, and short-term deferrals. Thus, it is inappropriate to use the short-term rate for relatively long-term Pension/PBOP assets, to which carrying charges are applied in Attachment DTE-1-4(Rev). In line with appropriate financing, the Company did not fund the Pension/PBOP balance with short-term debt, as can be seen from the FERC Form 1 for the years 1998 through 2002, when short-term debt requirements (as outlined above) exceeded the short term debt balances[1].

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1 Short term debt is taken from account 231. Short term debt requirements are taken from Cash (account 131), Short term investments (account 136), Construction Work in Progress (account 107) and deferrals for Standard Offer, Default Service, Transmission, Transition and Cost of Gas (excluding Boston Edison Transition Charge which carries a carrying charge based on a modified cost of capital). Some of the deferrals previously mentioned fall in a longer term category also.